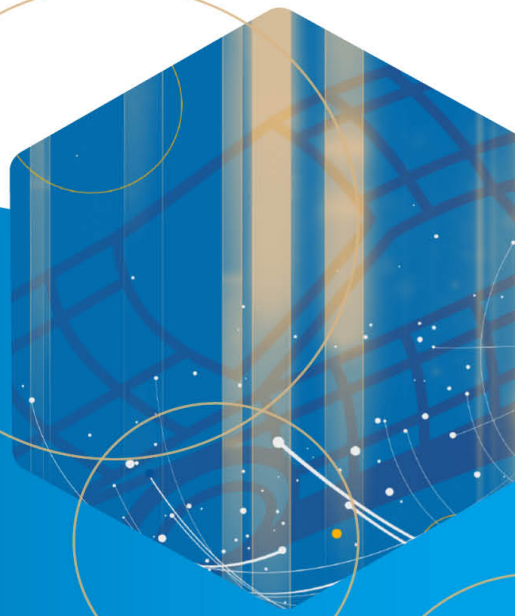




LKQ Corporation

Second Quarter 2020 Earnings Call

July 30, 2020

Nick Zarcone - *President & Chief Executive Officer*
Varun Laroyia - *Executive Vice President & Chief Financial Officer*
Joe Boutross - *Vice President, Investor Relations*

Forward Looking Statements and Non-GAAP Financial Measures

Statements and information in this presentation that are not historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are made pursuant to the "safe harbor" provisions of such Act.

Forward-looking statements include, but are not limited to, statements regarding our outlook, guidance, expectations, beliefs, hopes, intentions and strategies. These statements are subject to a number of risks, uncertainties, assumptions and other factors, including the effects of COVID-19 and those identified below. All forward-looking statements are based on information available to us at the time the statements are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should not place undue reliance on our forward-looking statements. Actual events or results may differ materially from those expressed or implied in the forward-looking statements. The risks, uncertainties, assumptions and other factors that could cause actual results to differ from the results predicted or implied by our forward-looking statements include the factors disclosed under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2019 and in our subsequent Quarterly Reports on Form 10-Q. These reports are available on our investor relations website at lkqcorp.com and on the SEC website at sec.gov.

This presentation contains non-GAAP financial measures. Included with this presentation is a reconciliation of each non-GAAP financial measure with the most directly comparable financial measure calculated in accordance with GAAP.

Mission Statement

To be the leading global value-added distributor of vehicle parts and accessories by offering our customers the most comprehensive, available and cost effective selection of part solutions while building strong partnerships with our employees and the communities in which we operate

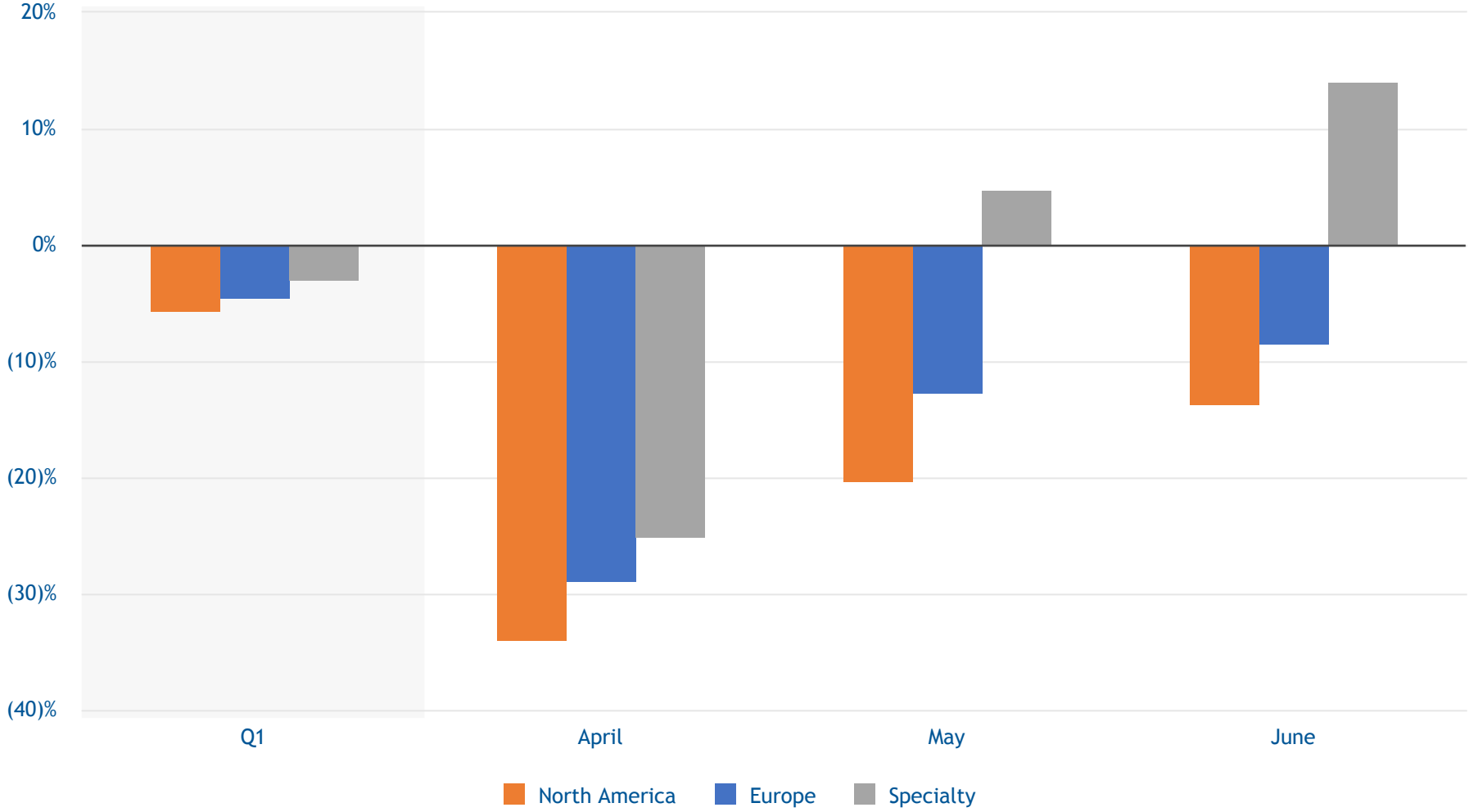
Q2 2020 Highlights

- COVID-19 Pandemic Impact on Operations
  - Efforts by governments to flatten the infection curve had a negative impact on mobility and miles driven
  - Revenue impact through June 2020 has not been as significant as initially expected when first quarter results were announced
  - Cost actions and cash management implemented to align with demand
  - No material disruptions to supply chain
  - Liquidity should be sufficient to support current operations
- Sequential improvement in organic revenue from April through June
  - April organic parts and services revenue decreased 30.3% on a per day basis, improving to a decrease of 7.3% on a per day basis in June
- Implemented cost reduction actions resulting in sequential savings of approximately $162 million (down 18%) in Q2 compared to Q1 2020
- Q2 2020 Diluted EPS from continuing operations of $0.39 vs. $0.48 (19% decrease): Q2 2020 Adjusted Diluted EPS[(1)] of $0.53 vs. $0.65 (19% decrease)
- Strong operating cash conversion; generated $718 million in operating cash flows in Q2 2020 (up 56%): free cash flow[(2)] of $686 million (up 66%); $913 million in operating cash flows YTD 2020 (up 43%): free cash flow[(2)] of $836 million (up 56%)
- Paid down $552 million in debt in Q2 and $782 million YTD; net leverage declined to 2.2x[(3)] EBITDA as of June 30
- Amended our credit agreement to increase maximum permitted net leverage ratio which significantly reduced the risk of a covenant breach

(1) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation
(2) Free Cash Flow is a non-GAAP measure. Refer to Appendix 6 for Free Cash Flow reconciliation
(3) Net leverage per bank covenants is defined as Net Debt/EBITDA. See the definitions of Net Debt and EBITDA in the credit agreement filed with the SEC for further details

Demand Impact

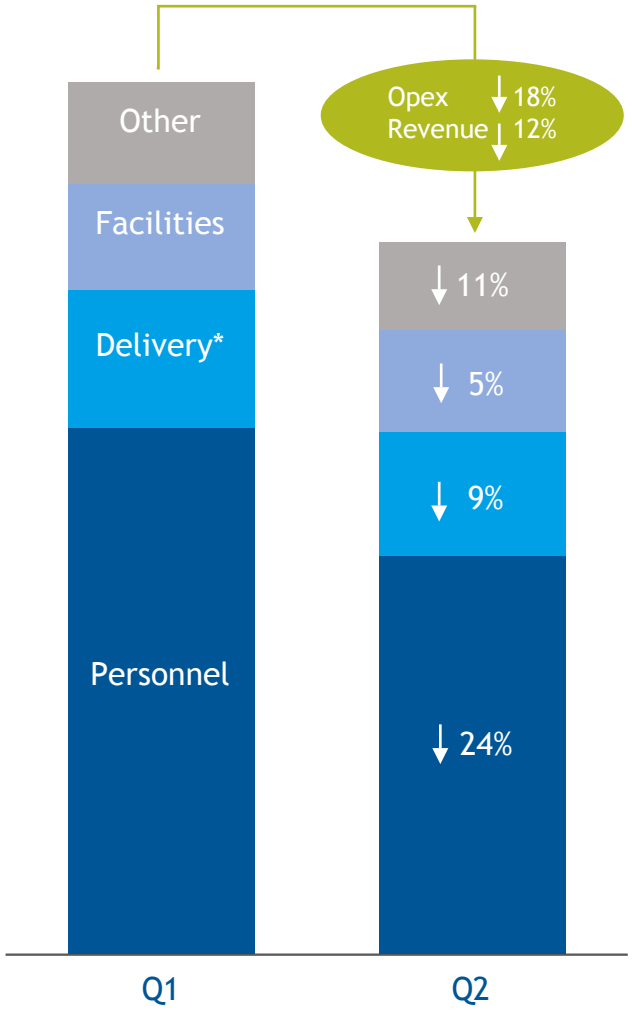
Organic Parts & Services Revenue Change (Per Day)



Revenue recovery leveling off in late June and into July

Cost Structure Actions

Opex quarterly run rate**



*Delivery Costs include freight, vehicle & fuel
** Percentage changes reflect comparison against Q1 2020 figures

Key cost reductions

- **Personnel costs down 24%**
  - Headcount actions totaling ~17K FTEs include furlough, RIFs, decreased hours, elimination of overtime, temp workers and hiring freeze; leveraging European government programs
    - Brought back a portion of FTEs as revenue recovered through the quarter
  - Salary reduction of 10% – 20% effective during Q2 for employees compensated above certain thresholds and delayed merit increase
    - Salary trim and merit reinstated in Q3
  - Additional personnel savings reflected in COGS
- **Delivery costs down 9%**
  - Optimization in number of deliveries & routes across each segment and lower vehicle expenses and fuel spend, partially offset by mix-driven increase in third party freight cost
- **Facilities costs down 5%**
  - Lower utilities expense; branch closure benefits will be largely prospective owing to restructuring undertaken
- **Other costs down 11%**
  - Reduction in discretionary, professional services and non-mission critical spend representing a 17% decrease; partially offset by increased bad debt expense in Q2 (up 49% compared to Q1 2020)

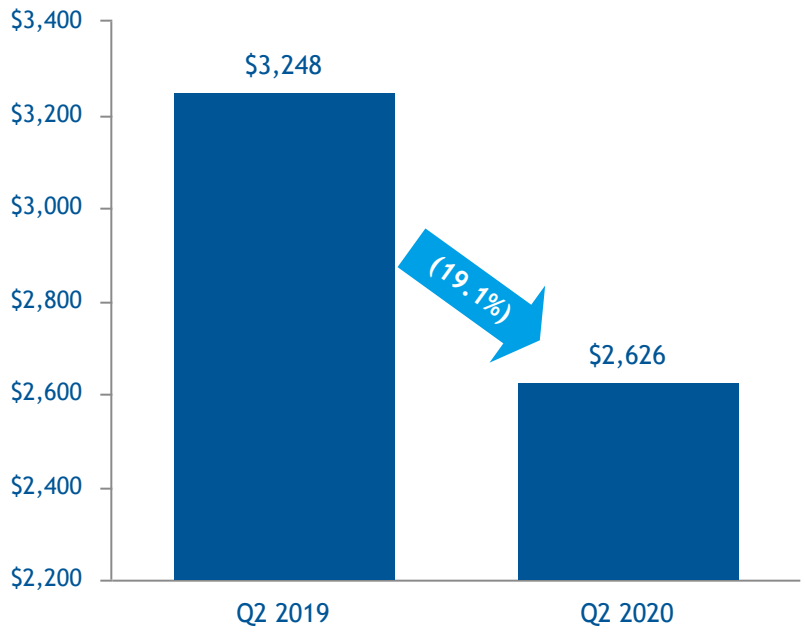
Liquidity as of June 30, 2020

Credit Rating	• Rated Ba2 / BB by Moody's and S&P, respectively
Debt Structure	• Fixed Interest Rate Bonds: €1,500 million ($1,685 million) • Variable Interest Rate Bank Debt: $1,471 million ($939 million hedged to fixed rates) • Receivables Securitization Facility: $0 outstanding balance • Other Debt (capital leases, local lines of credit): $122 million
Maturities	• Current maturities: $94 million; No significant maturities until January 2024
Financial Covenants[1]	• Credit Facility maximum leverage ratio covenant: 5.00x o Net debt to EBITDA as of June 30, 2020: 2.2x • Credit Facility minimum interest expense coverage ratio: 3.0x o EBITDA to interest expense as of June 30, 2020: 11.7x • Euro Notes do not include financial maintenance covenants
Liquidity	• Cash on balance sheet of $476 million • $3,150 million revolving credit facility: $1,941 million available • Receivables securitization facility: $0 outstanding balance ($110 million outstanding capacity) • Total Available Liquidity: $2,527 million
Cash Flows	• YTD 2020 operating cash flow of $913 million (43% higher than prior year); YTD 2020 free cash flow[2] of $836 million (56% higher than prior year)
COVID-19 Actions	• Reduced CapEx by over $100M (down ~40%) vs. prior guidance; only mission critical programs and Fource CDC progressing; YTD CapEx of $77 million (down 24% year over year) • Reduced inventory replenishment rates across each segment to reflect current demand outlook • Actively monitoring customer receivables • European vendor financing program and overall payment terms initiative progressing • Tax payment deferral programs resulted in $175-$185 million Q2 benefit; largely unwinds in the second half of 2020 and remainder in 2021-2022 • Share repurchase program suspended on March 16, 2020 • All actions yielded benefits to total liquidity in Q2

(1) See the definition of Net Debt, interest expense and EBITDA in the credit agreement filed with the SEC for further details
(2) Free Cash Flow is a non-GAAP measure. Refer to Appendix 5 for Free Cash Flow reconciliation

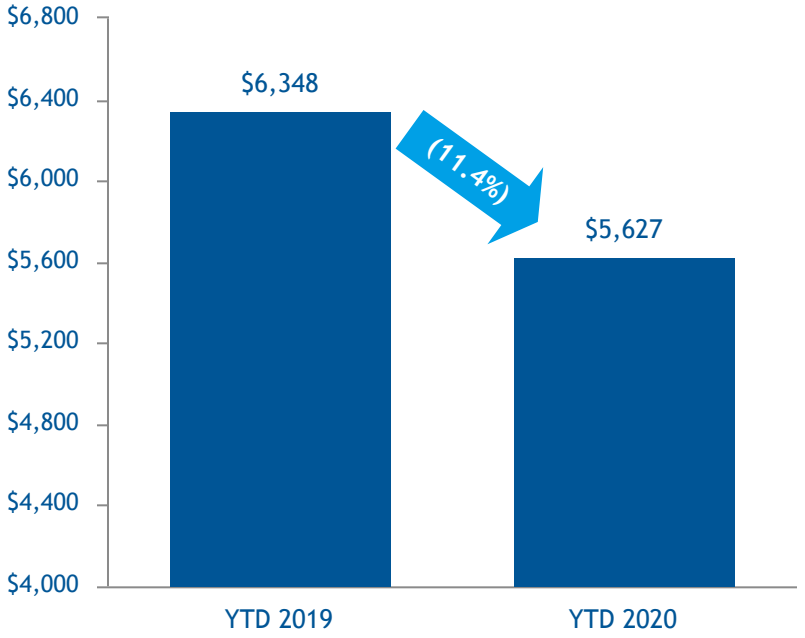
Consolidated Results - Continuing Operations

Q2 2020 Revenue[1]



- Organic revenue for parts and services decreased 16.8% on a per day basis

YTD 2020 Revenue[1]

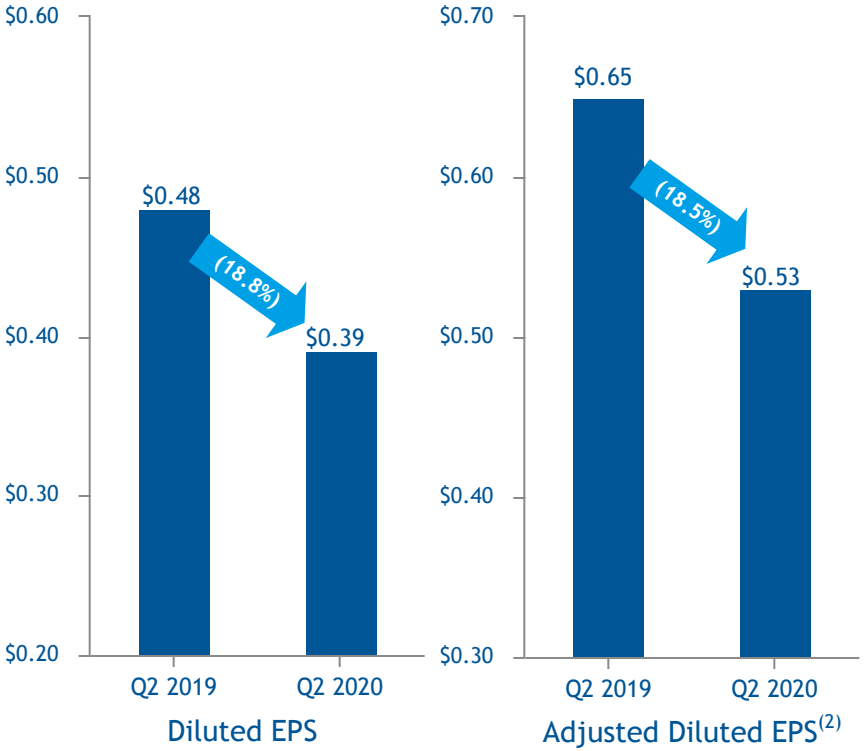


- Organic revenue for parts and services decreased 10.9% on a per day basis

(1) Revenue in millions

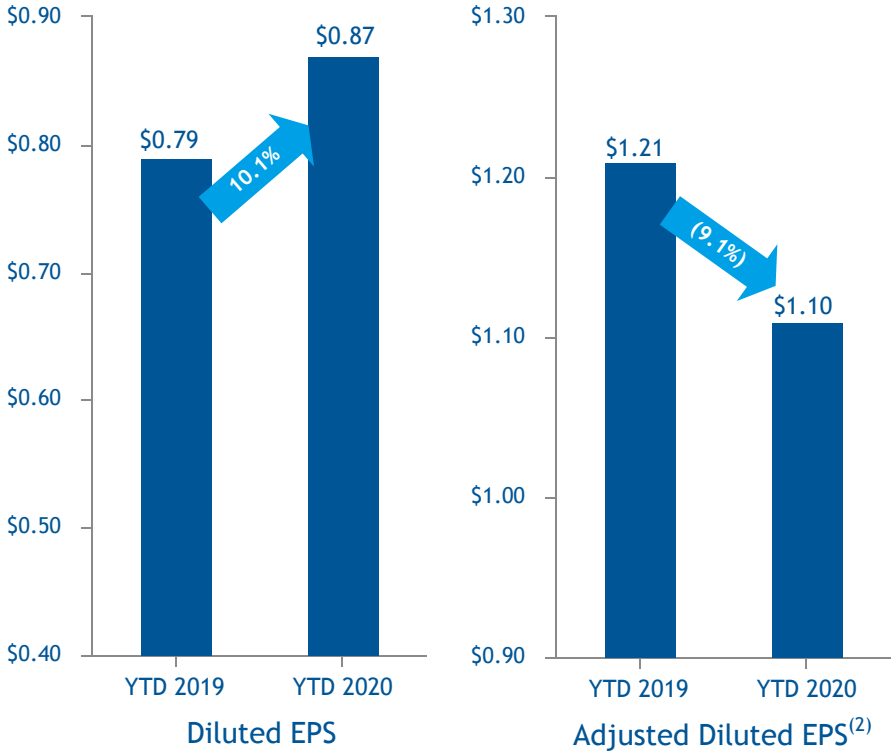
Consolidated Results - Continuing Operations

Q2 2020 EPS[1]



- Net income from continuing operations attributable to LKQ stockholders of $119 million (4.5% of revenue) in Q2 2020 vs. $150 million (4.6% of revenue) in Q2 2019; down 21.2% YOY
- Q2 2019 includes impairment charges totaling $25 million after tax or ($0.08) per share
- Segment EBITDA[3] of $291 million; down 18.8% YOY
- Segment EBITDA Margin[3] of 11.1% in Q2 2020 vs. 11.0% in Q2 2019

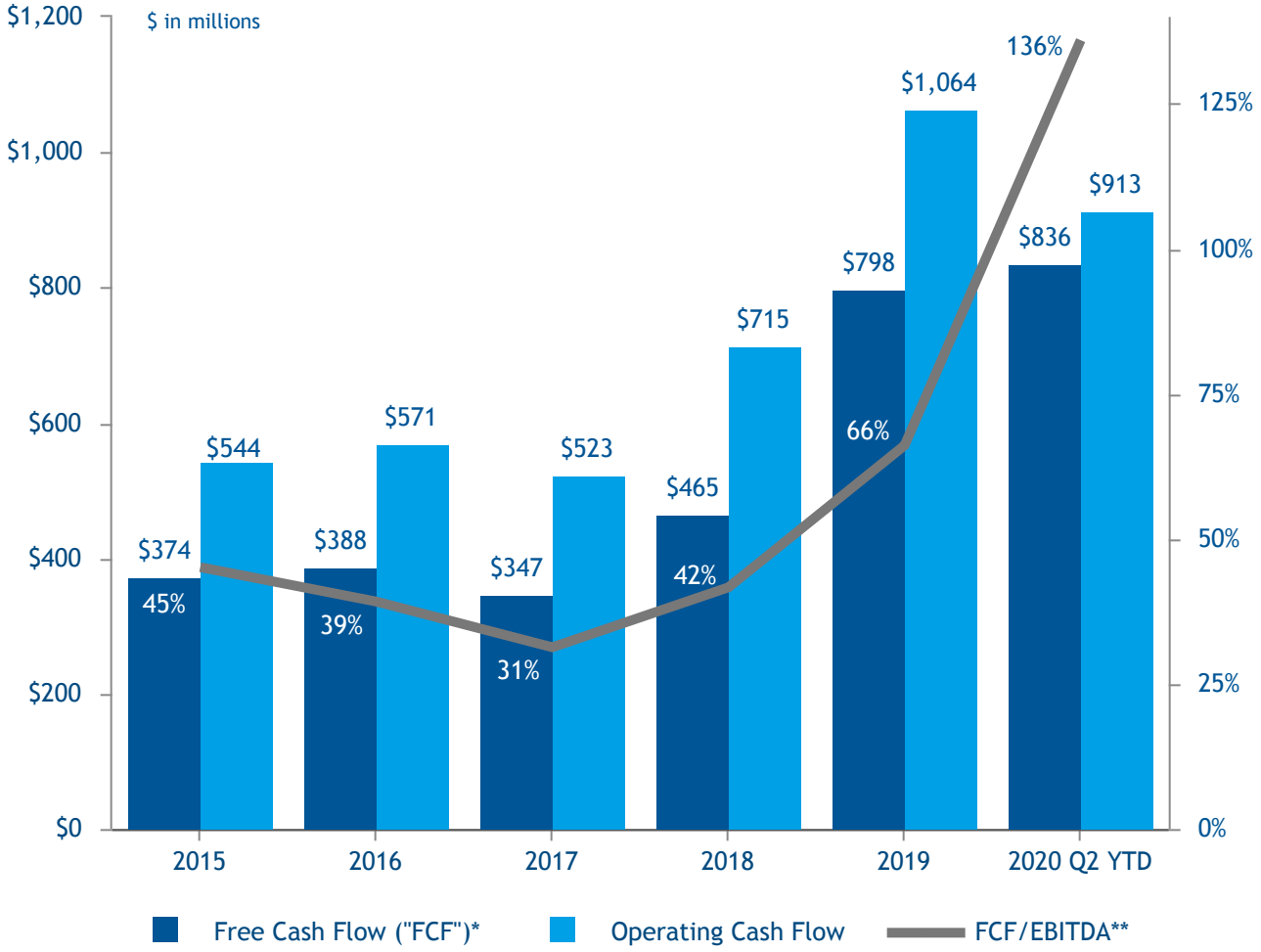
YTD 2020 EPS[1]



- Net income from continuing operations attributable to LKQ stockholders of $265 million (4.7% of revenue) in YTD 2020 vs. $248 million (3.9% of revenue) in YTD 2019; up 6.5% YOY
- YTD 2019 includes impairment charges totaling $77 million after tax or ($0.25) per share
- Segment EBITDA[3] of $613 million; down 9.6% YOY
- Segment EBITDA Margin[3] of 10.9% in YTD 2020 vs. 10.7% in YTD 2019

(1) Net income and earnings per share figures refer to net income from continuing operations attributable to LKQ stockholders
(2) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation
(3) Segment EBITDA is a non-GAAP financial measure. Refer to Appendix 3 for Segment EBITDA reconciliation

Free Cash Flow*



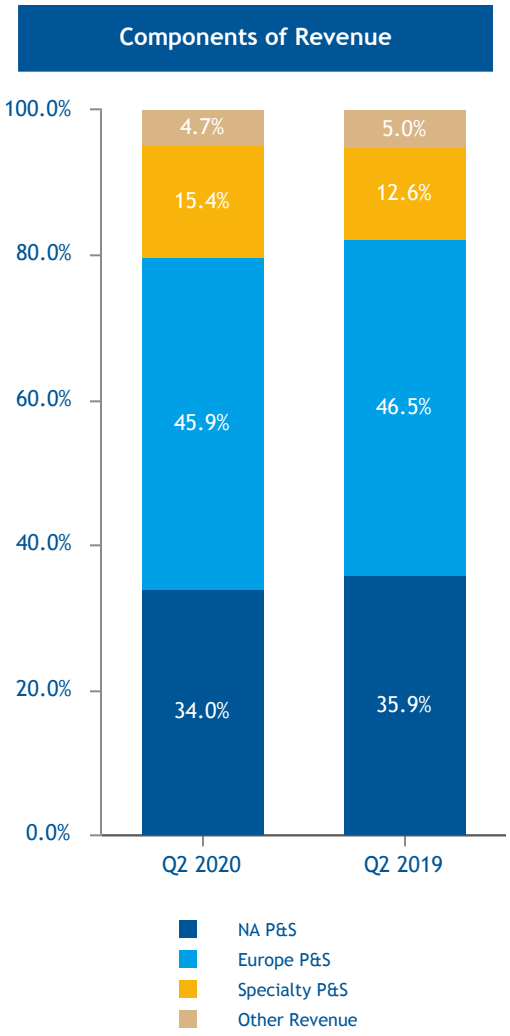
Note: FCF amounts only include FCF generated by continuing operations
* Free Cash Flow is a non-GAAP measure. Refer to Appendix 5 for Free Cash Flow reconciliation
** EBITDA is a non-GAAP measure. Refer to Appendix 3 for EBITDA reconciliation

LKQ Corporation

Financial Results

Q2 2020 Revenue

Revenue Changes by Source:	Organic	Acquisition and Divestiture	Foreign Exchange	Total[1]
North America	(22.5)%	(0.6)%	(0.2)%	(23.4)%
Europe	(16.6)%	(0.7)%	(2.9)%	(20.2)%
Specialty	(1.4)%	0.3%	(0.4)%	(1.5)%
Parts and Services	(16.8)%	(0.5)%	(1.5)%	(18.9)%
Other Revenue	(23.7)%	0.1%	(0.1)%	(23.7)%
Total	(17.2)%	(0.5)%	(1.5)%	(19.1)%

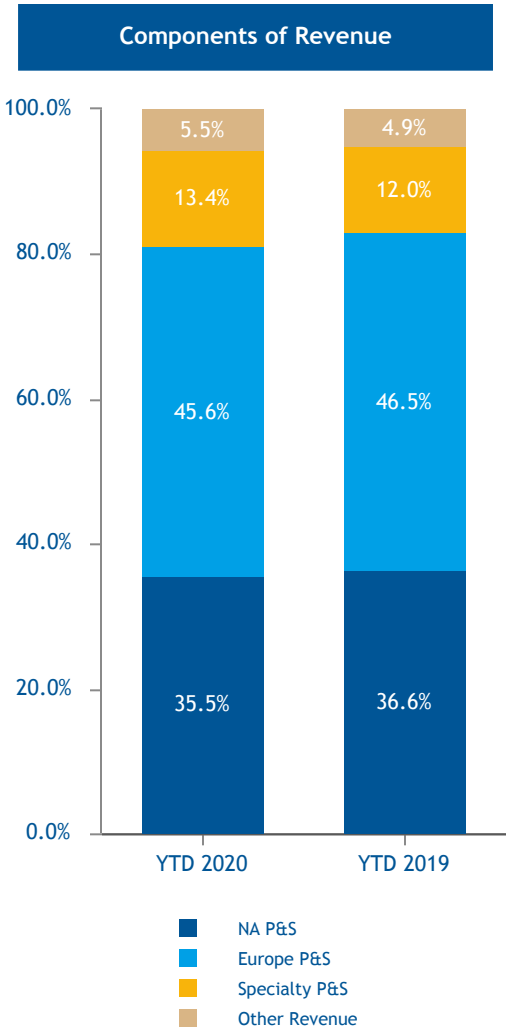


- Organic revenue for parts and services declined by 16.8% largely due to the COVID-19 pandemic and stay at home mandates across all three segments in Q2
- North America organic revenue for parts and services declined by 22.5%; collision and auto liability claims were down 41.7% for the quarter[2]; outperformance of claims trend attributable to share gains, mechanical part sales and self service parts and admissions
- Europe organic revenue for parts and services declined by 16.6%; not all regions were impacted by the pandemic at the same time and to the same degree, creating a different growth profile for each of our European businesses - Germany and the Netherlands recovering at a faster rate, with the UK and Italy lagging
- Unfavorable F/X impact on European parts and services revenue of $44 million; European constant currency parts and services revenue declined 17.3%[3]
- Specialty organic revenue declined by 1.4%; relative strength in a down economy due to solid demand for recreational vehicle products and from drop shipment customers
- Decrease in other revenue was primarily attributable to lower volumes and year over year prices of scrap steel. Scrap steel prices were down 25% versus Q2 2019; and down sequentially by 16% versus Q1 2020. Decrease in other revenue was also attributable to a decrease in revenue from other scrap metals and fluids due to lower volumes.

(1) The sum of the individual revenue change components may not equal the total percentage due to rounding
(2) Per CCC Information Services, Inc. 2020 Second Quarter Industry Update
(3) Constant currency is a non-GAAP financial measure. Refer to Appendix 1 for constant currency reconciliation

YTD 2020 Revenue

Revenue Changes by Source:	Organic	Acquisition and Divestiture	Foreign Exchange	Total[1]
North America	(13.4)%	(0.3)%	(0.2)%	(13.8)%
Europe	(10.1)%	(0.3)%	(2.7)%	(13.1)%
Specialty	(1.4)%	0.2%	(0.2)%	(1.5)%
Parts and Services	(10.3)%	(0.2)%	(1.4)%	(11.9)%
Other Revenue	(1.0)%	0.7%	(0.1)%	(0.4)%
Total	(9.8)%	(0.2)%	(1.4)%	(11.4)%



- One additional selling day in YTD 2020 compared to the same period in the prior year
- Organic revenue for parts and services declined by 10.3% (10.9% on a per day basis) largely due to the onset of the COVID-19 pandemic in March and the corresponding decrease in mobility across all three segments during Q2
- North America organic revenue for parts and services declined by 13.4% (14.0% on a per day basis); collision and auto liability claims were down 26.0% for the year[2]
- Europe organic revenue for parts and services declined by 10.1% (10.6% on a per day basis); growth of 0.3% through February
- Unfavorable F/X impact on European parts and services revenue of $80 million; European constant currency parts and services revenue declined 10.4%[3]
- Specialty organic revenue declined by 1.4% (2.2% on a per day basis); growth of 4.3% through February
- Slight decrease in other revenue attributable to a decrease in revenue from other scrap metals and fluids due to lower volumes and a decrease in revenue from scrap steel due to lower year over year prices partially offset by an increase in revenue from precious metals due to higher prices compared to the prior year

(1) The sum of the individual revenue change components may not equal the total percentage due to rounding
(2) Per CCC 2020 Second Quarter Industry Update
(3) Constant currency is a non-GAAP financial measure. Refer to Appendix 1 for constant currency reconciliation

Operating Results - Continuing Operations

($ in millions, except per share data)	Second Quarter			YTD		
	2020	2019	Change	2020	2019	Change
Revenue	$2,626	$3,248	(19.1)%	$5,627	$6,348	(11.4)%
Gross Margin	1,011	1,247	(18.9)%	2,225	2,455	(9.4)%
Operating Income	180	236	(23.6)%	422	459	(7.9)%
Pre-tax Income	163	206	(20.9)%	370	396	(6.6)%
Net income from continuing operations attributable to LKQ stockholders	119	150	(21.2)%	265	248	6.5%
Segment EBITDA[(1)]	291	359	(18.8)%	613	679	(9.6)%
Diluted EPS from continuing operations attributable to LKQ stockholders:						
Reported	$0.39	$0.48	(18.8)%	$0.87	$0.79	10.1%
Adjusted[(2)]	$0.53	$0.65	(18.5)%	$1.10	$1.21	(9.1)%

- Effective income tax rate for the three months and six months ended June 30, 2020 was 25.7% and 27.7%, respectively, compared to 27.1% for both the three and six months ended June 30, 2019
- Q2 2019 and YTD 2019 includes $33 million and $49 million, respectively, of pretax impairment charges in Operating Income; $25 and $38 million after tax or ($0.08) and ($0.12) per share, respectively
- Segment EBITDA Margin[(1)] of 11.1% in Q2 2020 vs. 11.0% in Q2 2019
- Segment EBITDA Margin[(1)] of 10.9% in YTD 2020 vs. 10.7% in YTD 2019

(1) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation
(2) Adjusted Diluted EPS is a non-GAAP measure. Refer to Appendix 4 for Adjusted Diluted EPS reconciliation

Q2 2020 Consolidated Margins - Continuing Operations

(as a % of Revenue)	Q2 2020	Q2 2019	Change F/(U)	Q2 Commentary
Revenue	100.0%	100.0%	—%	
Gross Margin	38.5%	38.4%	0.1%	Increase primarily attributable to Europe and North America. Includes 0.2% restructuring charge in Q2 2020 due to inventory write-downs related to our North America and Europe segments
Adjusted Gross Margin[(1)]	38.7%	38.4%	0.3%	Excludes COGS restructuring charge noted above
Selling, General and Administrative Expenses	28.1%	27.7%	(0.4)%	Increase primarily attributable to North America (0.5%) and Europe (0.5%), partially offset by mix and Specialty
Impairment of net assets held for sale	0.1%	1.0%	0.9%	Primarily driven by $33M pretax impairment charges on net assets held for sale in Q2 2019
Restructuring and Acquisition Related Expenses	0.9%	0.3%	(0.6)%	Up year-over-year due to restructuring programs announced in Q2 2019 and Q1 2020
Depreciation and Amortization	2.5%	2.2%	(0.3)%	Lower in dollar terms than 2019 but higher as a percentage of revenue due to the fixed nature of the cost in a period of lower revenue
Operating Income	6.9%	7.3%	(0.4)%	
Segment EBITDA[(2)]	11.1%	11.0%	0.1%	

Note: In the table above, the sum of the individual percentages may not equal the total due to rounding
(1) Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin.
(2) Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for Segment EBITDA reconciliation. Segment EBITDA is a measure of segment profitability. Refer to individual segment slides for drivers of Segment EBITDA.

YTD 2020 Consolidated Margins - Continuing Operations

(as a % of Revenue)	YTD 2020	YTD 2019	Change F/(U)	YTD Commentary
Revenue	100.0%	100.0%	—%	
Gross Margin	39.5%	38.7%	0.8%	Increase primarily attributable to North America and Europe. Includes 0.1% restructuring charge in 2020 due to inventory write-downs related to our North America and Europe segments
Adjusted Gross Margin[(1)]	39.6%	38.7%	0.9%	Excludes COGS restructuring charge noted above
Selling, General and Administrative Expenses	29.1%	28.3%	(0.8)%	Increase primarily attributable to Europe (0.8%) and North America (0.3%), partially offset by mix
Impairment of net assets held for sale	0.0%	0.8%	0.8%	Primarily driven by $49M pretax impairment charges on net assets held for sale in 2019
Restructuring and Acquisition Related Expenses	0.6%	0.2%	(0.4)%	Up year-over-year due to restructuring programs announced in Q2 2019 and Q1 2020
Depreciation and Amortization	2.3%	2.2%	(0.1)%	Lower in dollar terms than 2019 but higher as a percentage of revenue due to the fixed nature of the cost in a period of lower revenue
Operating Income	7.5%	7.2%	0.3%	
Segment EBITDA[(2)]	10.9%	10.7%	0.2%	

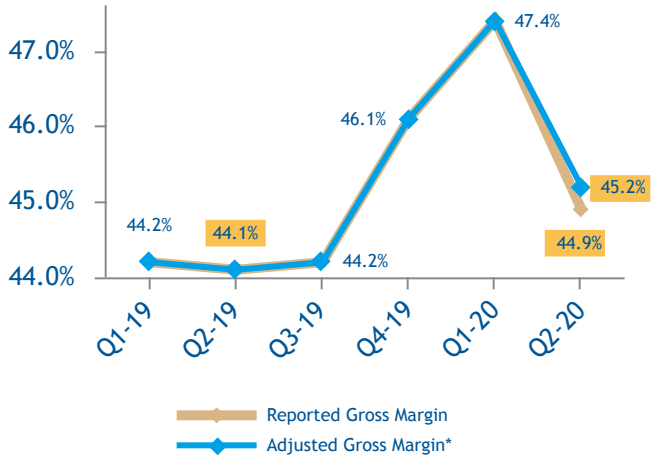
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North America - Q2 2020 Results

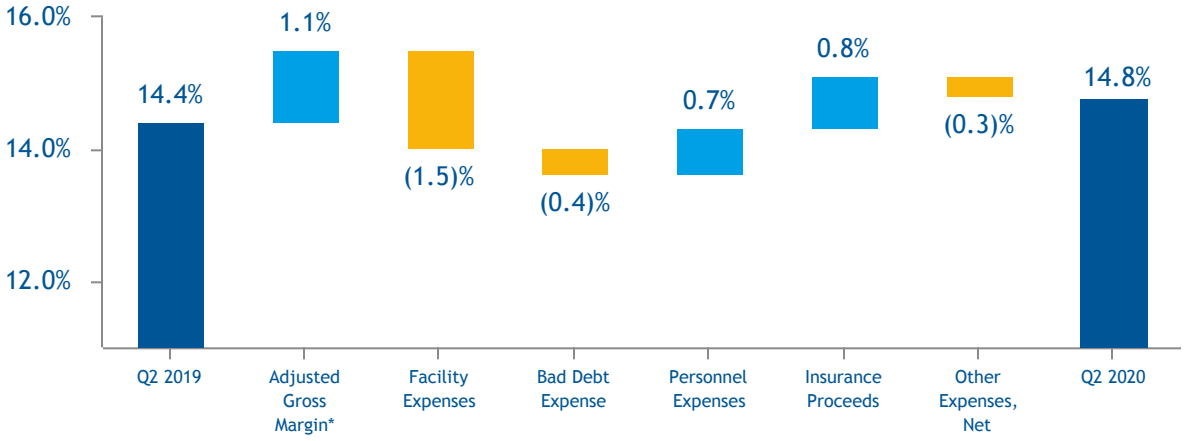
($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,011	$1,322	(23.5)%		
Gross Margin	$454	$583	(22.1)%	44.9%	44.1%
Adjusted Gross Margin*	$457	$583	(21.6)%	45.2%	44.1%
Operating Expenses	$317	$398	20.4%	31.3%	30.1%
Other Income, net	$8	$3			
Segment EBITDA[(1)]	$150	$190	(21.3)%	14.8%	14.4%

(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

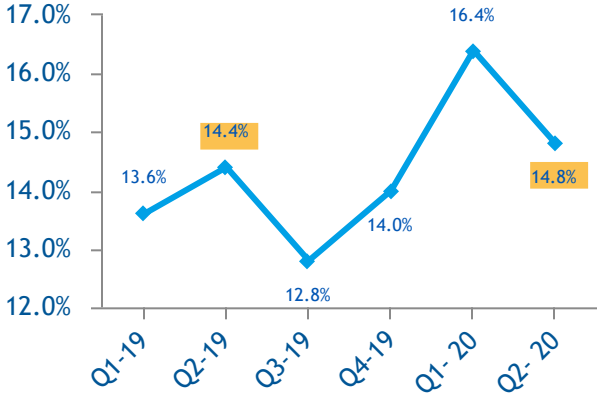
Gross Margin



North America Segment EBITDA Margin Bridge



Segment EBITDA Margin



Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

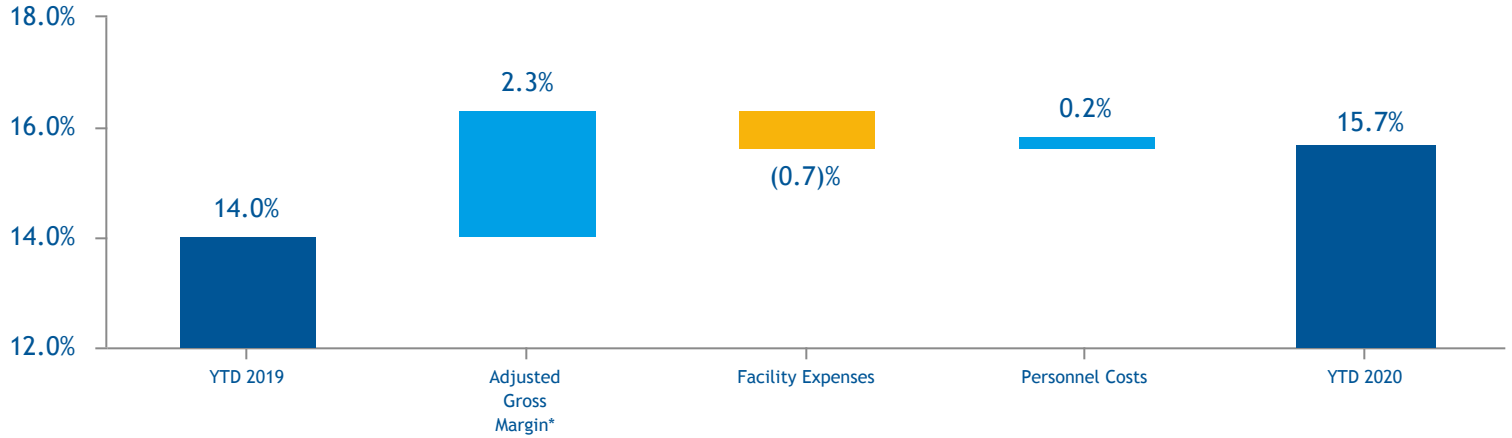
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 0.8% was negatively impacted by 0.3% for COGS related restructuring expenses which are excluded from the bridge and Segment EBITDA Margin chart above

North America - YTD 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$2,302	$2,624	(12.3)%		
Gross Margin	$1,065	$1,158	(8.0)%	46.3%	44.1%
Adjusted Gross Margin*	$1,068	$1,158	(7.8)%	46.4%	44.1%
Operating Expenses	$721	$805	10.4%	31.3%	30.7%
Other Income, net	$12	$11			
Segment EBITDA[(1)]	$361	$367	(1.6)%	15.7%	14.0%

(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

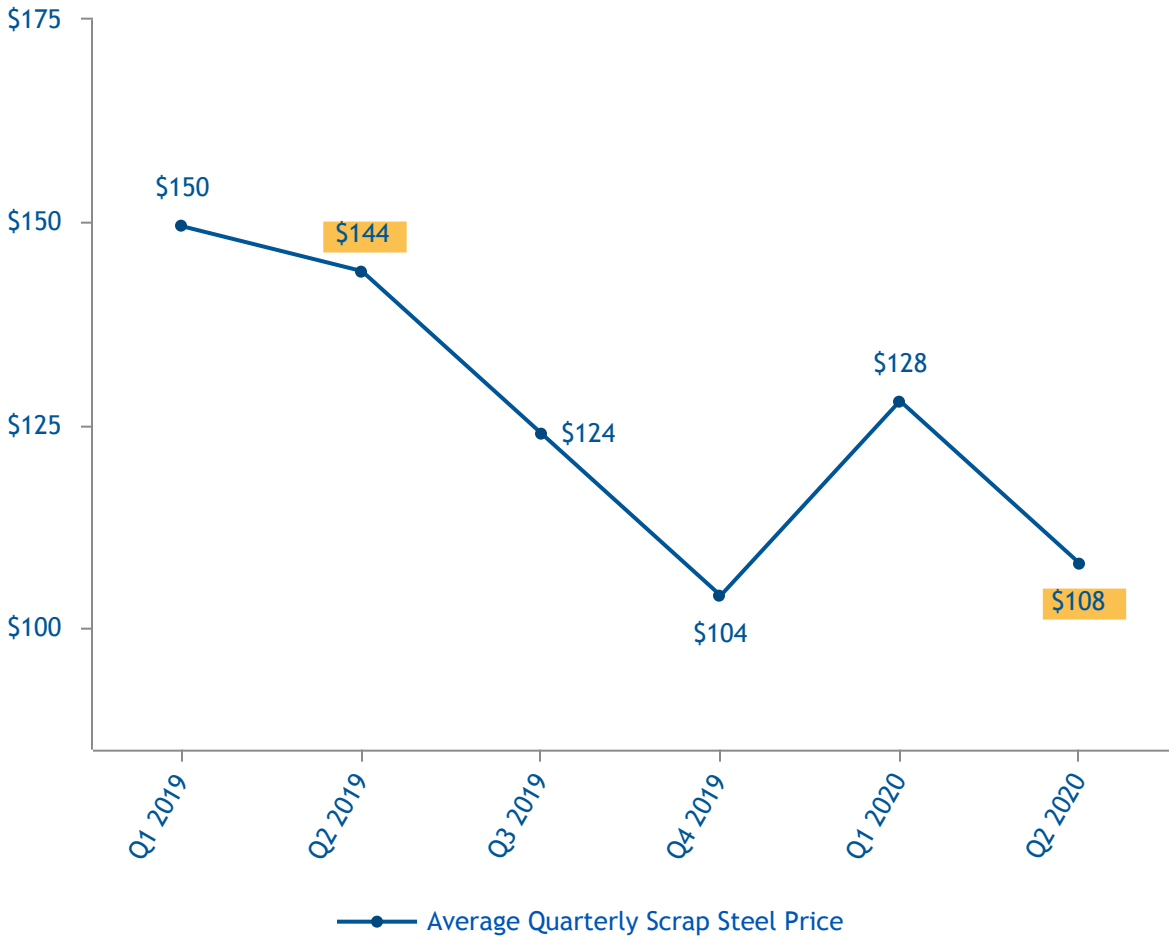
North America Segment EBITDA Margin Bridge



Note: In the table and Segment EBITDA Margin Bridge above, the sum of the individual percentages may not equal the total due to rounding
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 2.2% was negatively impacted by 0.1% for COGS related restructuring expenses which are excluded from the bridge above

Scrap Steel Prices

Q2 YOY scrap steel prices down 25%



- Average price realized for scrap steel decreased by 25% from $144 per ton in Q2 2019 to $108 per ton in Q2 2020
- Sequential change from last quarter was negative $20 per ton, or down 16%
- Sequential changes in scrap steel prices impacted Segment EBITDA:
  - Q2 2020: unfavorable by $6 million
  - Q2 2019: unfavorable by $2 million

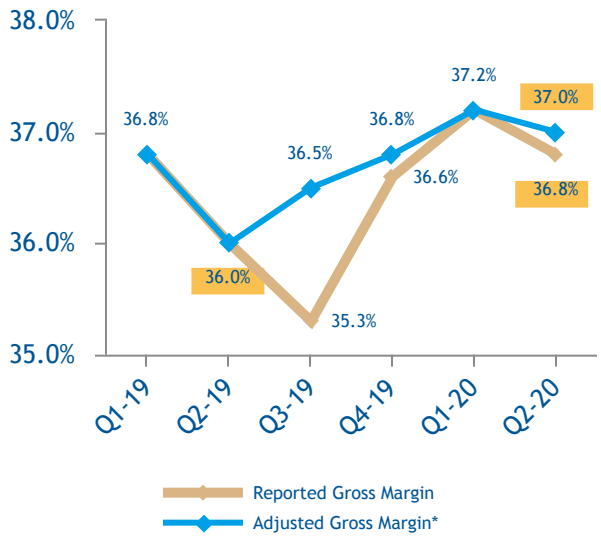
Europe - Q2 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$1,211	$1,516	(20.1)%		
Gross Margin	$445	$545	(18.4)%	36.8%	36.0%
Adjusted Gross Margin*	$448	$545	(17.9)%	37.0%	36.0%
Operating Expenses	$360	$433	16.8%	29.7%	28.6%
Other Income, net	$0	$2			
Segment EBITDA[(1)]	$89	$116	(23.1)%	7.4%	7.7%
Transformation Expenses	$2	$5			
Segment EBITDA[(1)] excluding Transformation Expenses[(2)]	$92	$122	(24.6)%	7.6%	8.0%

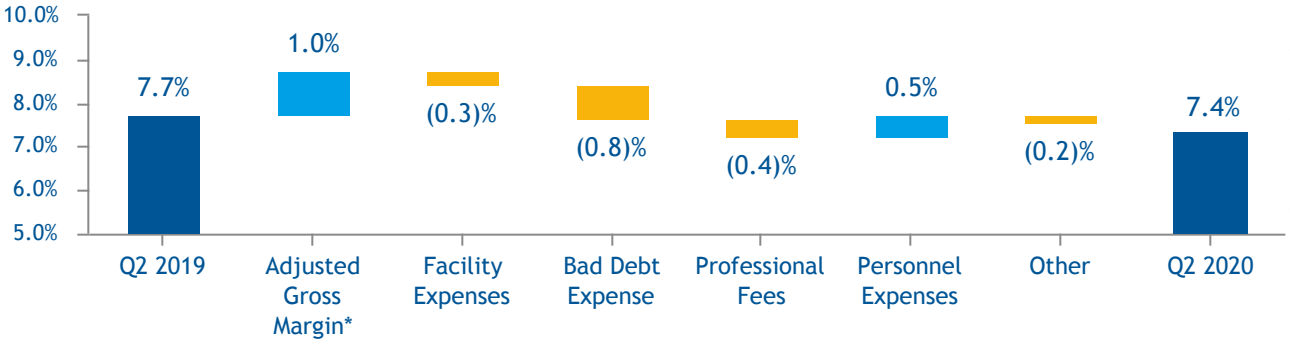
(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

(2) Transformation expenses are period costs to execute the 1 LKQ Europe program that are expected to contribute to ongoing benefits to the business (e.g. non-capitalized implementation costs related to a common ERP system). These expenses are recorded in Selling, General and Administrative expenses.

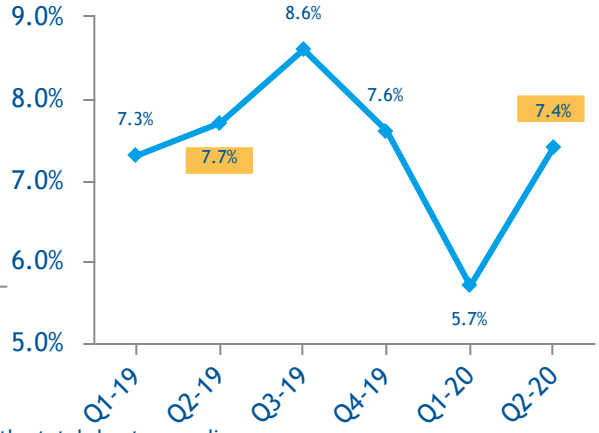
Gross Margin



Europe Segment EBITDA Margin Bridge



Segment EBITDA Margin



Note: In the table and Segment EBITDA Margin Bridge above, the sum of the dollars and individual percentages may not equal the total due to rounding

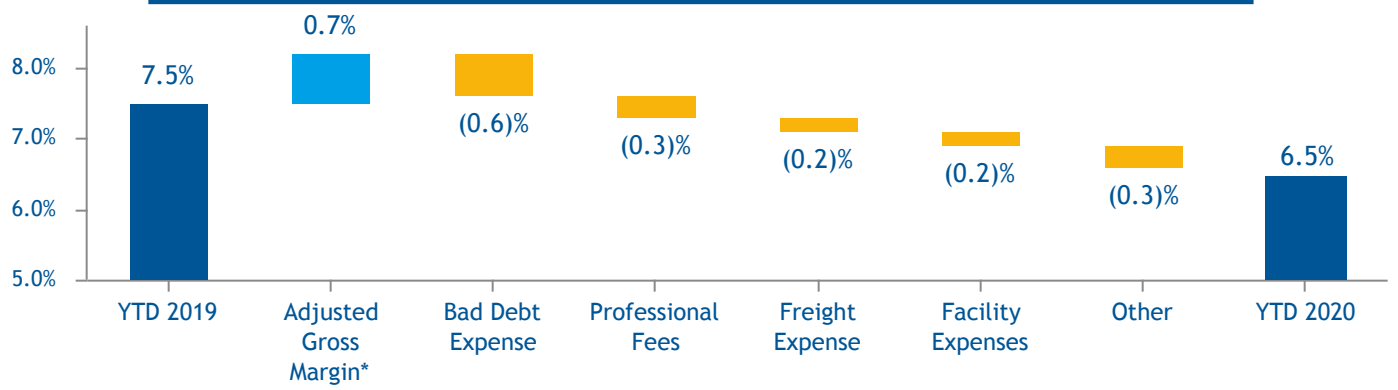
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 0.8% was negatively impacted by 0.2% for COGS related restructuring expenses which are excluded from the bridge and Segment EBITDA Margin chart above

Europe - YTD 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$2,575	$2,962	(13.1)%		
Gross Margin	$952	$1,078	(11.6)%	37.0%	36.4%
Adjusted Gross Margin*	$955	$1,078	(11.4)%	37.1%	36.4%
Operating Expenses	$792	$859	7.8%	30.7%	29.0%
Other (Expense), net	$(1)	$(2)			
Segment EBITDA(1)	$168	$222	(24.3)%	6.5%	7.5%
Transformation Expenses	$9	$7			
Segment EBITDA(1) excluding Transformation Expenses(2)	$177	$229	(22.8)%	6.9%	7.7%

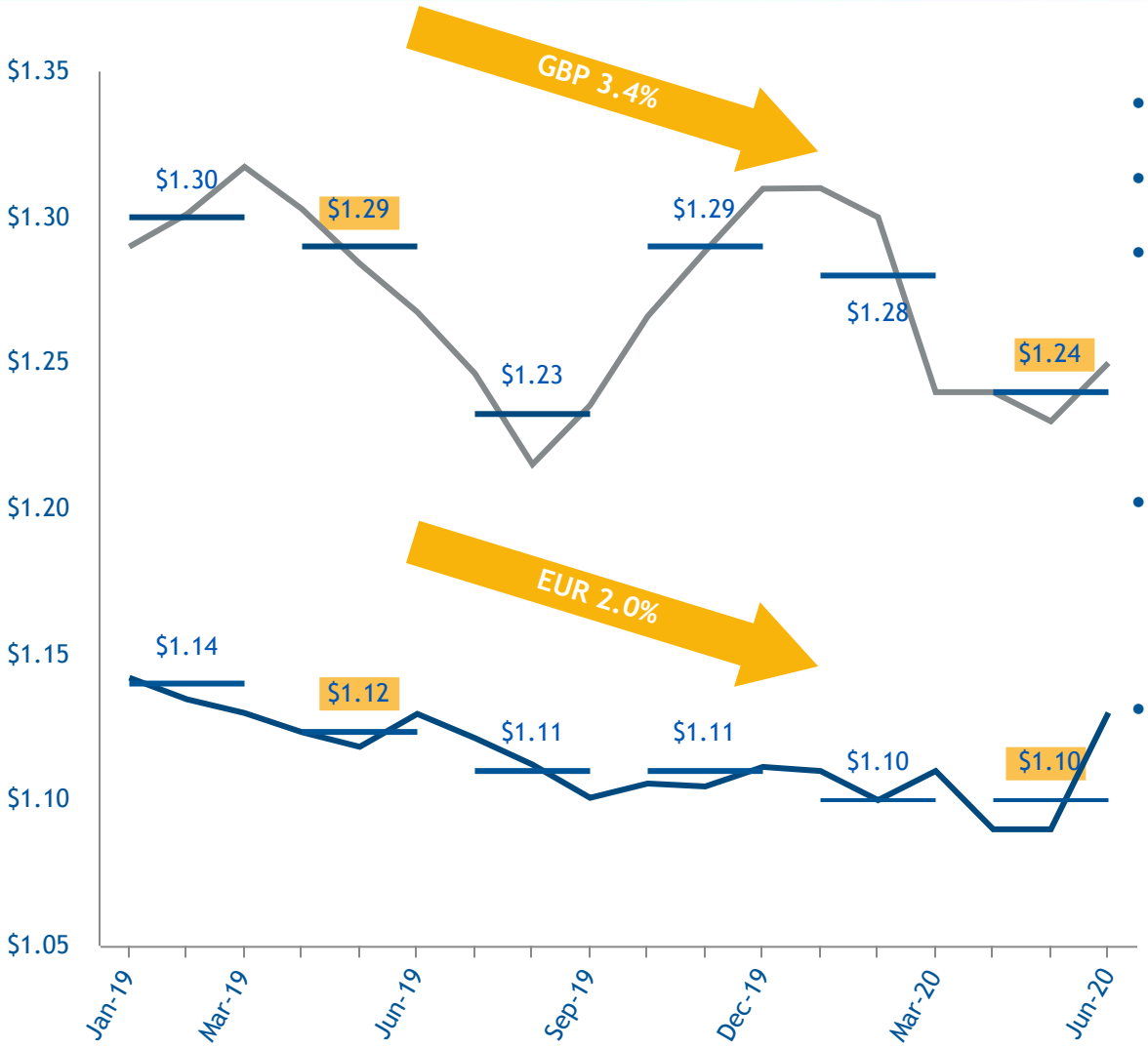
(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.
(2) Transformation expenses are period costs to execute the 1 LKQ Europe program that are expected to contribute to ongoing benefits to the business (e.g. non-capitalized implementation costs related to a common ERP system). These expenses are recorded in Selling, General and Administrative expenses.

Europe Segment EBITDA Margin Bridge



Note: In the table and Segment EBITDA Margin Bridge above, the sum of the individual percentages may not equal the total due to rounding
*Adjusted Gross Margin is a non-GAAP measure. Refer to Appendix 6 for Reconciliation of Gross Margin to Adjusted Gross Margin. Reported Gross Margin % increase of 0.6% was negatively impacted by 0.1% for COGS related restructuring expenses which are excluded from the bridge above

Foreign Exchange



- £ down 3.4% Q2 2020 vs Q2 2019
- € down 2.0% Q2 2020 vs Q2 2019
- $44 million unfavorable impact of translation of weaker Q2 rates relative to the US dollar on European parts and services revenue growth
- European constant currency(1) parts and services revenue decrease YoY of 17.3% for Q2 2020 and 10.4% YTD 2020
- Foreign exchange impact:
  - Q2 2020 flat EPS impact; flat Adjusted EPS impact
  - YTD 2020 flat EPS impact; Adjusted EPS impact of ($0.01)

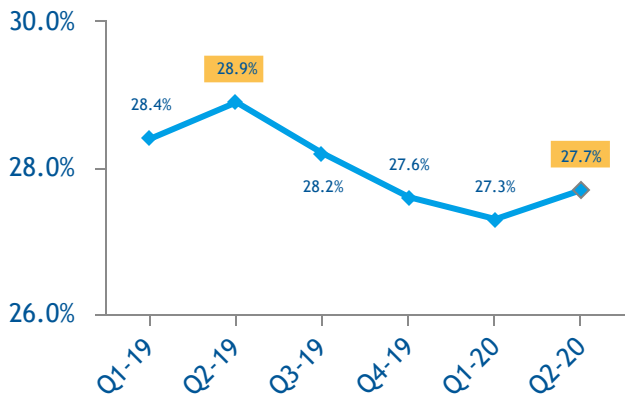
(1) Constant currency is a non-GAAP financial measure. Refer to Appendix 1 for constant currency reconciliation.

Specialty - Q2 2020 Results

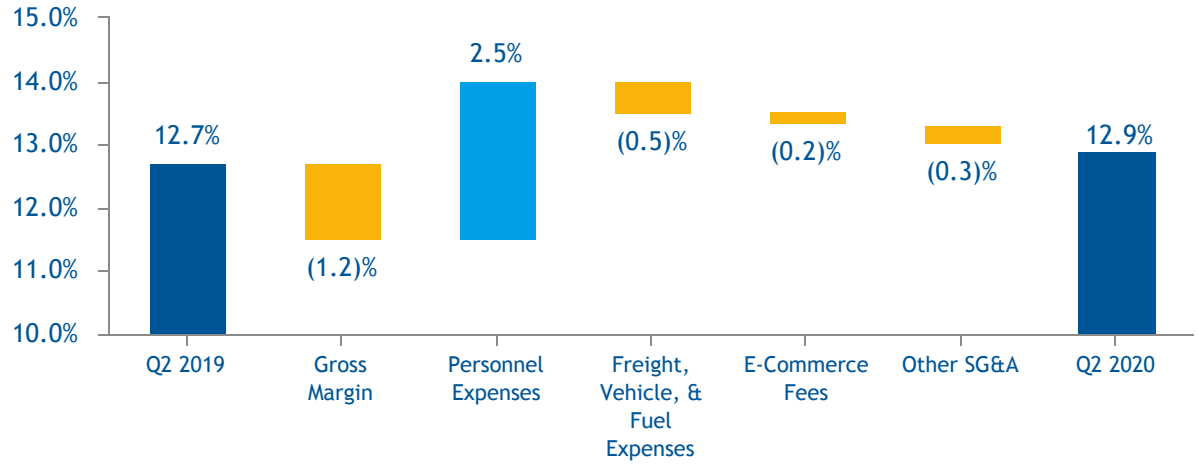
($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$405	$412	(1.6)%		
Gross Margin	$112	$119	(5.9)%	27.7%	28.9%
Operating Expenses	$61	$68	10.5%	14.9%	16.4%
Segment EBITDA[(1)]	$52	$52	(0.3)%	12.9%	12.7%

(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

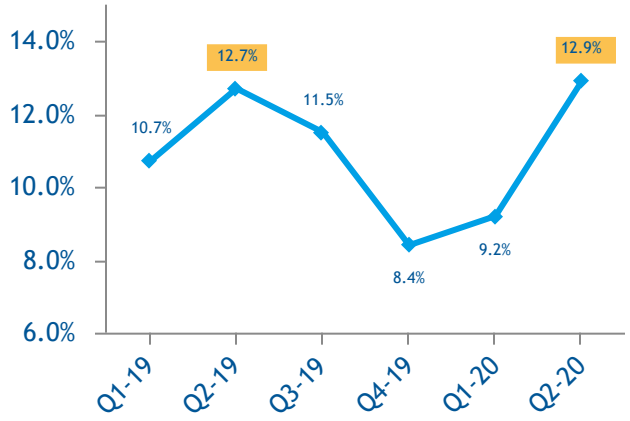
Gross Margin



Specialty Segment EBITDA Margin Bridge



Segment EBITDA Margin



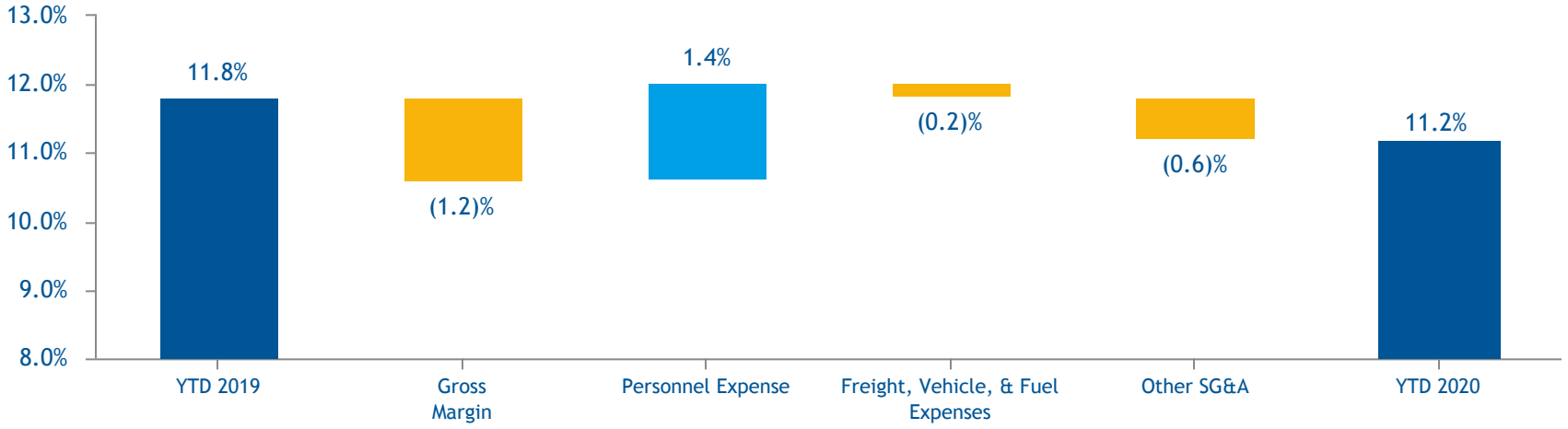
Note: In the table and Segment EBITDA Margin Bridge above, the sum of the individual percentages may not equal the total due to rounding

Specialty - YTD 2020 Results

($ in millions)	2020	2019	Change F/(U)	% of Revenue 2020	% of Revenue 2019
Total Revenue	$753	$765	(1.6)%		
Gross Margin	$207	$219	(5.7)%	27.5%	28.7%
Operating Expenses	$124	$131	5.2%	16.5%	17.1%
Segment EBITDA[(1)]	$84	$90	(6.5)%	11.2%	11.8%

(1) Segment EBITDA for each respective segment is a GAAP measure, while total Segment EBITDA is a non-GAAP measure. Refer to Appendix 3 for total Segment EBITDA reconciliation and Appendix 2 for the breakout of Segment EBITDA for each respective segment.

Specialty Segment EBITDA Margin Bridge



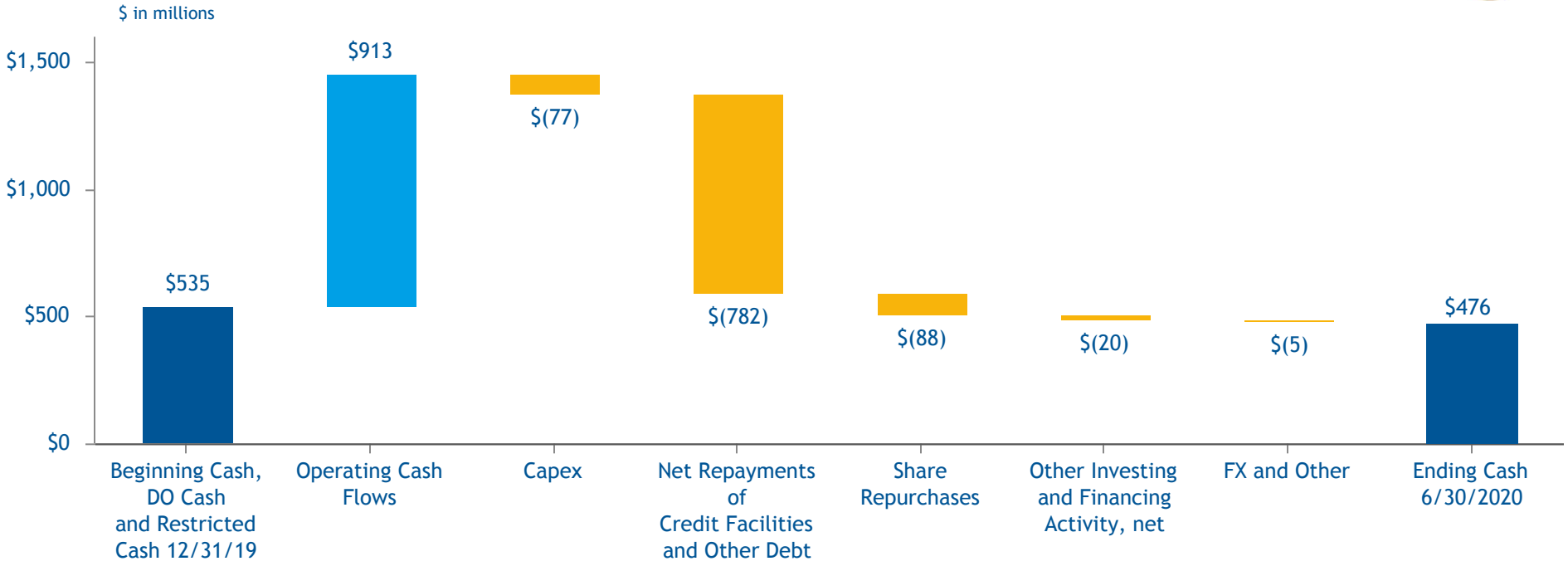
Note: In the table above, the sum of the individual percentages may not equal the total due to rounding

Inventory

Inventory Procurement:	Q2			YTD		
($ in millions, Vehicles purchased in 000s)	2020	2019	% Change	2020	2019	% Change
Total aftermarket procurement	$964	$1,613	(40.2)%	$2,467	$3,139	(21.4)%
Wholesale salvage cars and trucks	36	78	(53.8)%	108	152	(28.9)%
Europe wholesale salvage cars and trucks	5	6	(16.7)%	12	14	(14.3)%
Self service and "crush only" cars	137	165	(17.0)%	286	304	(5.9)%

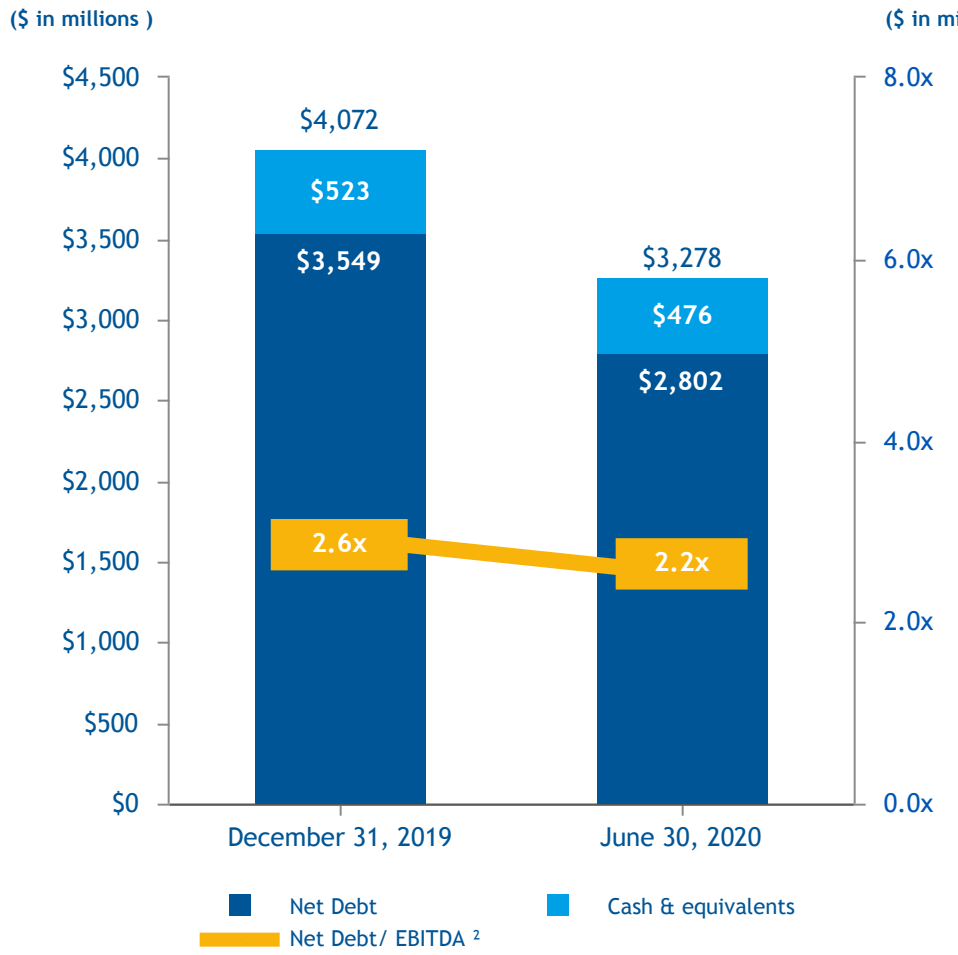
- Net decrease in aftermarket purchases driven by an increased focus on inventory reduction owing to COVID-19 and to align procurement with revenue
- Cost per vehicle in our self service operations increased 9% Q2 YOY and 8% YTD YOY due primarily to increases in precious metal prices
- Average cost per vehicle in our full service salvage operations decreased 1% YTD YOY; there was no change to the Q2 YOY cost

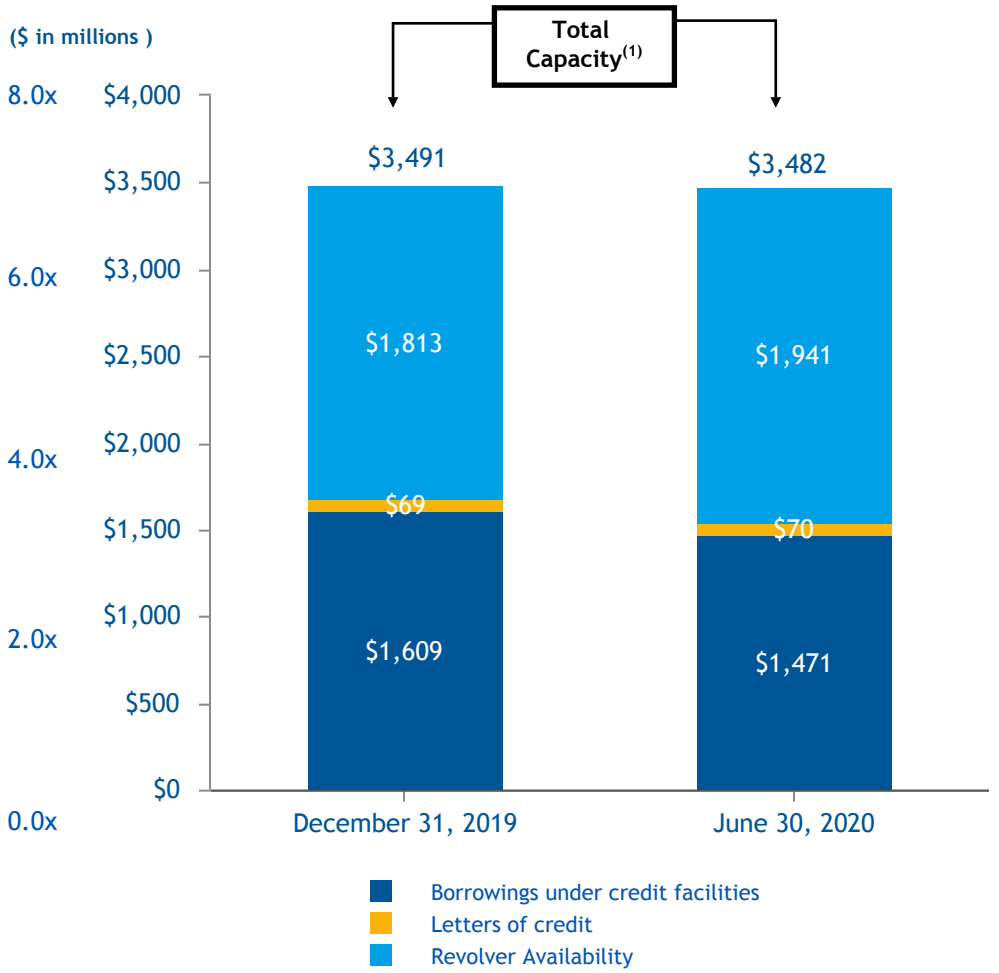
2020 YTD Capital Allocation



- YTD Operating cash flows:
  - Operating cash flows of $913 million represent a $275 million (or 43%) year over year increase owing to cash inflows of $314 million from inventory, $144 million from net receivables, and $148 million from delayed VAT and income tax payments, partially offset by a cash outflow of ($269) million from accounts payable
- YTD Investing cash flows:
  - Capex of $77 million vs. $101 million in 2019; down 24% year over year
- YTD Financing cash flows
  - $782 million of net repayments on our borrowings, including the redemption of our $600 million 4.75% Senior Notes due 2023 in Q1
  - $88 million in share repurchases; program is currently suspended
- Discontinued Operations ("DO") cash was $6 million at 12/31/19 relating to the Stahlgruber Czech Republic business; there is no DO cash included in the ending balance as the business was sold during Q1 2020
- Restricted cash was $5 million at 12/31/19; there is no restricted cash included in the ending balance as the cash was repaid during Q2 2020

Leverage & Liquidity

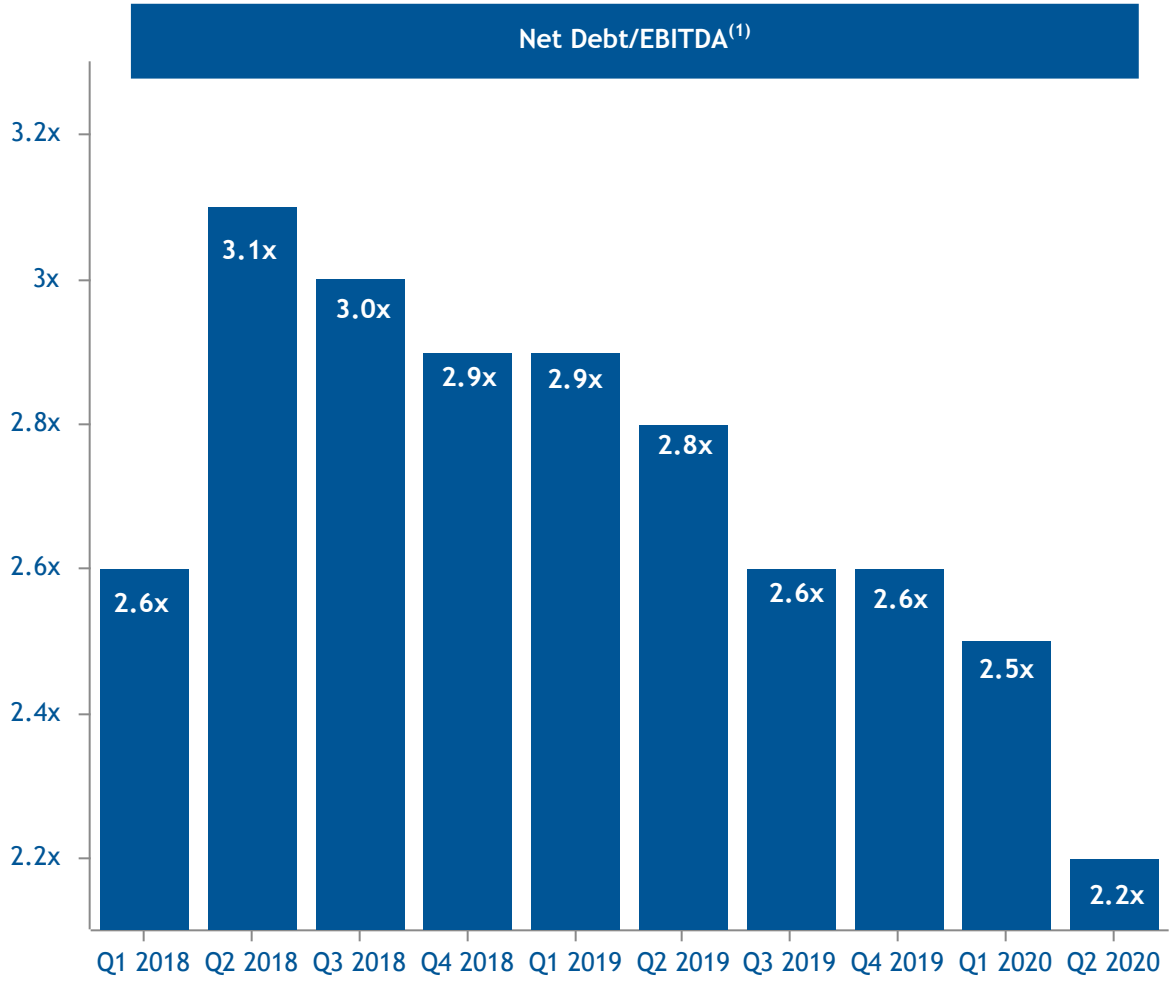




Effective borrowing rate for Q2 2020 was 2.8% (3)

(1) Total capacity includes our term loans and revolving credit facilities
(2) Net leverage per bank covenants is defined as Net Debt/EBITDA. See the definitions of Net Debt and EBITDA in the credit agreement filed with the SEC for further details
(3) Including our interest rate swaps, approximately 84% of our outstanding debt at June 30, 2020 is effectively at a fixed interest rate

Net Leverage Trend



- Maximum net leverage ratio of 5.00x for Q2 2020 through Q1 2021, 4.50x for Q2 2021, 4.25x for Q3 2021, and 4.00x for Q4 2021 through the maturity of the credit facility
- Net Debt/EBITDA increased in Q2 2018 due to the Stahlgruber acquisition
- Strong cash flow generation has allowed us to reduce our net leverage to pre-Stahlgruber acquisition levels within 6 quarters
- Able to de-lever while also repurchasing $440 million in LKQ stock program-to-date

(1) Net leverage per bank covenants is defined as Net Debt/EBITDA. See the definitions of Net Debt and EBITDA in the credit agreement filed with the SEC for further details

LKQ's Business Model Supports Sustainable Growth Across a Range of Macro Environments

Select North American Brands

Select European Brands



Appendix - Non-GAAP Financial Measures

This presentation contains non-GAAP financial measures. Following are reconciliations of each non-GAAP financial measure with the most directly comparable financial measure calculated in accordance with GAAP.

Appendix 1 - Constant Currency Reconciliation

- The following unaudited table reconciles revenue growth for Parts & Services to constant currency revenue growth for the same measure:

	Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	Consolidated	**Europe**	**Consolidated**	**Europe**
Parts & Services				
Revenue growth as reported	(18.9)%	(20.2)%	(11.9)%	(13.1)%
Less: Currency impact	(1.5)%	(2.9)%	(1.4)%	(2.7)%
Revenue growth at constant currency	(17.4)%	(17.3)%	(10.5)%	(10.4)%

We have presented the growth of our revenue on both an as reported and a constant currency basis. The constant currency presentation, which is a non-GAAP financial measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency revenue information provides valuable supplemental information regarding our growth, consistent with how we evaluate our performance, as this statistic removes the translation impact of exchange rate fluctuations, which are outside of our control and do not reflect our operational performance. Constant currency revenue results are calculated by translating prior year revenue in local currency using the current year's currency conversion rate. This non-GAAP financial measure has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP. Our use of this term may vary from the use of similarly-named measures by other issuers due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation. In addition, not all companies that report revenue growth on a constant currency basis calculate such measure in the same manner as we do and, accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

Appendix 2 -
Revenue and Segment EBITDA by segment

(in millions)	Three Months Ended June 30[1] 2020	% of revenue	2019	% of revenue	Six Months Ended June 30[1] 2020	% of revenue	2019	% of revenue
Revenue								
North America	$1,011		$1,322		$2,302		$2,624	
Europe	1,211		1,516		2,575		2,962	
Specialty	405		412		753		765	
Eliminations	(1)		(1)		(3)		(3)	
Total Revenue	$2,626		$3,248		$5,627		$6,348	
Segment EBITDA								
North America	$150	14.8%	$190	14.4%	$361	15.7%	$367	14.0%
Europe	89	7.4%	116	7.7%	168	6.5%	222	7.5%
Specialty	52	12.9%	52	12.7%	84	11.2%	90	11.8%
Total Segment EBITDA	$291	11.1%	$359	11.0%	$613	10.9%	$679	10.7%

We have presented Segment EBITDA solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our segment profit and loss and underlying trends in our ongoing operations. We calculate Segment EBITDA as EBITDA excluding restructuring and acquisition related expenses (which includes restructuring expenses recorded in Cost of goods sold), change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments or divestitures, equity in losses and earnings of unconsolidated subsidiaries, and impairment charges. EBITDA, which is the basis for Segment EBITDA, is calculated as net income, less net income (loss) attributable to continuing and discontinued noncontrolling interest, excluding discontinued operations and discontinued noncontrolling interest, depreciation, amortization, interest (which includes gains and losses on debt extinguishment) and income tax expense. Our chief operating decision maker, who is our Chief Executive Officer, uses Segment EBITDA as the key measure of our segment profit or loss. We use Segment EBITDA to compare profitability among our segments and evaluate business strategies. This financial measure is included in the metrics used to determine incentive compensation for our senior management. We also consider Segment EBITDA to be a useful financial measure in evaluating our operating performance, as it provides investors, securities analysts and other interested parties with supplemental information regarding the underlying trends in our ongoing operations. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate general and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue. Refer to the table on the following page for a reconciliation of net income to EBITDA and Segment EBITDA.

(1) The sum of the individual components may not equal the total due to rounding

Appendix 3 -
Reconciliation of Net Income to EBITDA and Segment EBITDA

(in millions)	Three Months Ended June 30[1]		Six Months Ended June 30[1]	
	2020	2019	2020	2019
Net income	$119	$152	$265	$251
Subtract:				
Net (loss) income attributable to continuing noncontrolling interest	(0)	1	1	2
Net income attributable to discontinued noncontrolling interest	—	0	0	0
Net income attributable to LKQ stockholders	$119	$151	$264	$249
Subtract:				
Net income (loss) from discontinued operations	0	0	(1)	0
Net income attributable to discontinued noncontrolling interest	—	(0)	(0)	(0)
Net income from continuing operations attributable to LKQ stockholders	$119	$150	$265	$248
Add:				
Depreciation and amortization	66	71	131	142
Depreciation and amortization - cost of goods sold	4	5	9	11
Depreciation and amortization - restructuring expenses [2]	3	—	4	—
Interest expense, net of interest income	26	36	52	72
Loss on debt extinguishment	—	—	13	—
Provision for income taxes	42	56	102	107
EBITDA	$259	$318	$576	$580
Subtract:				
Equity in (losses) earnings of unconsolidated subsidiaries	(3)	2	(2)	(38)
Add:				
Restructuring and acquisition related expenses [2]	22	8	28	12
Restructuring expenses - cost of goods sold	6	—	6	—
Loss on disposal of businesses and impairment of net assets held for sale	2	33	2	49
Change in fair value of contingent consideration liabilities	(0)	0	(0)	0
Segment EBITDA	$291	$359	$613	$679
Net income from continuing operations attributable to LKQ stockholders as a percentage of revenue	4.5%	4.6%	4.7%	3.9%
EBITDA as a percentage of revenue	9.9%	9.8%	10.2%	9.1%
Segment EBITDA as a percentage of revenue	11.1%	11.0%	10.9%	10.7%

(1) The sum of the individual components may not equal the total due to rounding
(2) The sum of these two amounts represents the total amount that is reported in Restructuring and acquisition related expenses

Appendix 3 -
EBITDA and Segment EBITDA Reconciliation

We have presented EBITDA solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our operating performance and the value of our business. We calculate EBITDA as net income, less net income (loss) attributable to continuing and discontinued noncontrolling interest, excluding discontinued operations and discontinued noncontrolling interest, depreciation, amortization, interest (which includes gains and losses on debt extinguishment) and income tax expense. We believe EBITDA provides insight into our profitability trends and allows management and investors to analyze our operating results with the impact of continuing noncontrolling interest and without the impact of discontinued noncontrolling interest, discontinued operations, depreciation, amortization, interest (which includes gains and losses on debt extinguishment) and income tax expense. We believe EBITDA is used by investors, securities analysts and other interested parties in evaluating the operating performance and the value of other companies, many of which present EBITDA when reporting their results.

We have presented Segment EBITDA solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our segment profit and loss and underlying trends in our ongoing operations. We calculate Segment EBITDA as EBITDA excluding restructuring and acquisition related expenses (which includes restructuring expenses recorded in Cost of goods sold), change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments or divestitures, equity in losses and earnings of unconsolidated subsidiaries, and impairment charges. Our chief operating decision maker, who is our Chief Executive Officer, uses Segment EBITDA as the key measure of our segment profit or loss. We use Segment EBITDA to compare profitability among our segments and evaluate business strategies. This financial measure is included in the metrics used to determine incentive compensation for our senior management. Segment EBITDA includes revenue and expenses that are controllable by the segment. Corporate general and administrative expenses are allocated to the segments based on usage, with shared expenses apportioned based on the segment's percentage of consolidated revenue.

EBITDA and Segment EBITDA should not be construed as alternatives to operating income, net income or net cash provided by operating activities, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report EBITDA or Segment EBITDA information calculate EBITDA or Segment EBITDA in the same manner as we do and, accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

Appendix 4 - Reconciliation of Net Income and EPS to Adjusted Net Income and Adjusted EPS from Continuing Operations

(in millions, except per share data)	Three Months Ended June 30[1] 2020	Three Months Ended June 30[1] 2019	Six Months Ended June 30[1] 2020	Six Months Ended June 30[1] 2019
Net income	$119	$152	$265	$251
Subtract:				
Net (loss) income attributable to continuing noncontrolling interest	(0)	1	1	2
Net income attributable to discontinued noncontrolling interest	—	0	0	0
Net income attributable to LKQ stockholders	$119	$151	$264	$249
Subtract:				
Net income (loss) from discontinued operations	0	0	(1)	0
Net income attributable to discontinued noncontrolling interest	—	(0)	(0)	(0)
Net income from continuing operations attributable to LKQ stockholders	$119	$150	$265	$248
Adjustments - continuing operations attributable to LKQ stockholders:				
Amortization of acquired intangibles	24	31	48	63
Restructuring and acquisition related expenses	25	8	32	12
Restructuring expenses - cost of goods sold	6	—	6	—
Change in fair value of contingent consideration liabilities	(0)	0	(0)	0
Loss on debt extinguishment	—	—	13	—
Loss on disposal of businesses and impairment of net assets held for sale	2	33	2	49
Impairment of equity method investments	—	—	—	40
Excess tax expense (benefit) from stock-based payments	0	(0)	(1)	(0)
Tax effect of adjustments	(14)	(19)	(27)	(31)
Adjusted net income from continuing operations attributable to LKQ stockholders	$161	$204	$338	$380
Weighted average diluted common shares outstanding	304.2	312.7	305.5	314.4
Diluted earnings per share from continuing operations attributable to LKQ stockholders:				
Reported	$0.39	$0.48	$0.87	$0.79
Adjusted	$0.53	$0.65	$1.10	$1.21

(1) The sum of the individual components may not equal the total due to rounding

Appendix 4 - Reconciliation of Net Income and EPS to Adjusted Net Income and Adjusted EPS from Continuing Operations

We have presented Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations Attributable to LKQ Stockholders as we believe these measures are useful for evaluating the core operating performance of our continuing business across reporting periods and in analyzing our historical operating results. We define Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations Attributable to LKQ Stockholders as Net Income and Diluted Earnings per Share adjusted to eliminate the impact of continuing and discontinued noncontrolling interest, discontinued operations, restructuring and acquisition related expenses, amortization expense related to all acquired intangible assets, gains and losses on debt extinguishment, the change in fair value of contingent consideration liabilities, other gains and losses related to acquisitions, equity method investments or divestitures, impairment charges, excess tax benefits and deficiencies from stock-based payments and any tax effect of these adjustments. The tax effect of these adjustments is calculated using the effective tax rate for the applicable period or for certain discrete items the specific tax expense or benefit for the adjustment. Given the variability and volatility of the amount and frequency of costs related to acquisitions, management believes that these costs are not normal operating expenses and should be adjusted in our calculation of Adjusted Net Income from Continuing Operations Attributable to LKQ Stockholders. Our adjustment of the amortization of all acquisition-related intangible assets does not exclude the amortization of other assets, which represents expense that is directly attributable to ongoing operations. Management believes that the adjustment relating to amortization of acquisition-related intangible assets supplements the GAAP information with a measure that can be used to assess the comparability of operating performance. The acquired intangible assets were recorded as part of purchase accounting and contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Any future acquisitions may result in the amortization of additional intangible assets. These financial measures are used by management in its decision making and overall evaluation of our operating performance and are included in the metrics used to determine incentive compensation for our senior management. Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations Attributable to LKQ Stockholders should not be construed as alternatives to Net Income or Diluted Earnings per Share as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report measures similar to Adjusted Net Income and Adjusted Diluted Earnings per Share from Continuing Operations Attributable to LKQ Stockholders calculate such measures in the same manner as we do and, accordingly, our calculations are not necessarily comparable to similarly-named measures of other companies and may not be appropriate measures for performance relative to other companies.

Appendix 5 - Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

(in millions)	Three Months Ended June 30[1] 2020	2019	Six Months Ended June 30[1] 2020	2019
Net cash provided by operating activities	$718	$461	$913	$638
Less: purchases of property, plant and equipment	33	48	77	101
Free cash flow	$686	$413	$836	$537

(in millions)	Year Ended December 31[1] 2015	2016	2017	2018	2019
Operating Cash Flows	$544	$635	$519	$711	$1,064
Less: Operating Cash Flows - Discontinued Operations	—	64	(4)	(4)	—
Operating Cash Flows from Continuing Operations	$544	$571	$523	$715	$1,064
Capital Expenditures	170	207	179	250	266
Less: Capital Expenditures - Discontinued Operations	—	24	4	—	—
Continuing Capital Expenditures	$170	$183	$175	$250	$266
Free Cash Flow from Continuing Operations	$374	$388	$347	$465	$798

We have presented free cash flow solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate our liquidity. We calculate free cash flow as net cash provided by operating activities, less purchases of property, plant and equipment. We believe free cash flow provides insight into our liquidity and provides useful information to management and investors concerning our cash flow available to meet future debt service obligations and working capital requirements, make strategic acquisitions and repurchase stock. We believe free cash flow is used by investors, securities analysts and other interested parties in evaluating the liquidity of other companies, many of which present free cash flow when reporting their results. This financial measure is included in the metrics used to determine incentive compensation for our senior management. Free cash flow should not be construed as an alternative to net cash provided by operating activities, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report free cash flow information calculate free cash flow in the same manner as we do and, accordingly, our calculation is not necessarily comparable to similarly-named measures of other companies and may not be an appropriate measure for liquidity relative to other companies.

(1) The sum of the individual components may not equal the total due to rounding

Appendix 6 - Reconciliation of Gross Margin to Adjusted Gross Margin

Consolidated Adjusted Gross Margin	Three Months Ended[1]		Six Months Ended[1]	
(in millions)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Gross margin	$1,011	$1,247	$2,225	$2,455
Add: Restructuring expenses - cost of goods sold	6	—	6	—
Adjusted gross margin	$1,017	$1,247	$2,231	$2,455
Gross margin %	38.5%	38.4%	39.5%	38.7%
Adjusted gross margin %	38.7%	38.4%	39.6%	38.7%

North America Adjusted Gross Margin	Three Months Ended[1]		Six Months Ended[1]	
(in millions)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Gross margin	$454	$583	$1,065	$1,158
Add: Restructuring expenses - cost of goods sold	3	—	3	—
Adjusted gross margin	$457	$583	$1,068	$1,158
Gross margin %	44.9%	44.1%	46.3%	44.1%
Adjusted gross margin %	45.2%	44.1%	46.4%	44.1%

Europe Adjusted Gross Margin	Three Months Ended[1]		Six Months Ended[1]	
(in millions)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Gross margin	$445	$545	$952	$1,078
Add: Restructuring expenses - cost of goods sold	3	—	3	—
Adjusted gross margin	$448	$545	$955	$1,078
Gross margin %	36.8%	36.0%	37.0%	36.4%
Adjusted gross margin %	37.0%	36.0%	37.1%	36.4%

(1) The sum of the individual components may not equal the total due to rounding

Appendix 6 - Reconciliation of Gross Margin to Adjusted Gross Margin

We have presented adjusted gross margin solely as a supplemental disclosure that offers investors, securities analysts and other interested parties useful information to evaluate the operating performance of our continuing business across reporting periods and in analyzing our historical operating results. We calculate adjusted gross margin as gross margin plus restructuring expenses recorded in cost of goods sold. We believe adjusted gross margin provides insight into our operating performance and provides useful information to management and investors concerning our gross margins. We believe adjusted gross margin is used by investors, securities analysts and other interested parties in evaluating the operating performance of other companies, many of which present adjusted gross margin when reporting their results. Adjusted gross margin should not be construed as an alternative to gross margin, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report adjusted gross margin information calculate adjusted gross margin in the same manner as we do and, accordingly, our calculation is not necessarily comparable to similarly-named measures of other companies and may not be an appropriate measure for performance relative to other companies.